SSC DEVELOPMENT FUND: FINANCIAL AND ORGANIZATIONAL SUSTAINABILITY ASSESSMENT

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Executive Summary

Namibia's Social Security Act of 1994 established the Development Fund as one of five funds to be administered by the Social Security Commission (SSC) and formally launched in 2011 when it began to grant bursaries to deserving students from underprivileged backgrounds. The Development Fund currently supports four activities: bursaries, study loans, vocational training schemes, and employment schemes.

In 2012 a Strategic Business Plan for the SSC Development Fund was prepared by an external consulting group which highlighted the need for additional financial resources in order for the Development Fund to fulfill its mandate as expressed in the Social Security Act of 1994.

According to financial projections included in the Strategic Business Plan, by 2018 additional resources accounting for over 40 percent of the Development Fund's total annual revenue will be required to meet the Fund's objectives for all four activity areas (bursaries, study loans, training, and employment schemes).

This assessment has been designed to evaluate the current and potential financing mechanisms of the SSC Development Fund and use forecasting models to independently evaluate and project the Development Fund's sustainability. The outcomes of this activity are a set of recommendations for improving the SSC Development Fund sustainability over time.

The specific objectives of the assessment are to evaluate:

- *The financial sustainability of the SSC Development Fund*. Financial sustainability will ensure that the funding is adequate for current and future operations, including maintenance of reserves to cushion against potential funding short-falls.

- *The organizational sustainability of the SSC Development Fund.* This component will look at the SSC Development Fund's capacity to manage its operations efficiently and effectively to meet its mandates.

Findings:

- With its current staffing and funding the SSC Development Fund is neither organizationally nor financially sustainable at the activity levels planned for 2013/14 through 2017/18.

- It is doubtful that the SSC Development Fund will be able to access significant external funding on a long-term or sustainable basis in order to cover its projected deficit given the presence and level of funding enjoyed by the Namibia Student Financial Assistance Fund (NSFAF) and the National Training Authority/National Training Fund (NTA/NTF), as well as the declining level of international development assistance available to Namibia.

- The Development Fund can, however, achieve long-term financial sustainability if the SSC were to establish a policy of transferring a fixed percentage of the MSD Fund's free reserves, rather than a fixed dollar amount. As the MSD Fund's free reserves are projected to continue to grow at a compound annual rate of approximately 12 percent, an annual transfer of 2 percent of the

Development Fund's free reserves will not appreciably affect the MSD Fund's growth or ability to provide benefits to those insured.

- It may be difficult to continue to justify the use of SSC funds for Development Fund activities unless the Development Fund can convincingly differentiate its services from those of the NSFAF and NTA/NTF.

- The Development Fund can make significant contributions to Namibia's development by effectively focusing its activities on the poorest, most vulnerable, and most underserved segments of the population, which may not be reached by the NSFAF and NTA/NTF.

- In the case of the Development Fund's vocational education programs, the investment of SSC funds in training schemes provides a positive return to the SSC, as measured by increased contributions to the MSD Fund, which is superior to that currently being earned on the Development Fund's investment portfolio.

- The increased staffing levels which are already contemplated in the Development Fund's operating budget together with a reassignment of responsibilities and an improvement in selected business processes should provide the Development Fund with the organizational structure and staffing level is necessary to implement the projected increased level of activities.

Recommendations:

- The bursary scheme should focus on only those segments of the general population which are unlikely to apply or qualify for NSFAF financing due to their geographical isolation, chosen field of study, need for remedial education prior to beginning tertiary studies, status as adult learners, or other factors common to the target population of other SSC Development Fund programs. With this highly segmented approach, it is further recommended that study loans be phased out given the extreme poverty level of the target population and the availability of study loans under more attractive conditions through the NSFAF.

- The vocational education program should further refine its target market and unique approach to providing vocational training to the poorest and most vulnerable segments of the general population, including those with no or very little formal education, in order to avoid overlap with NTA-sponsored activities. The Development Fund may also wish to explore the possibility of assuming a leadership role in serving these target segments by setting standards and assuming the coordinating and administrative functions of training providers serving the Fund's target segments when these providers are unable to assume these functions themselves.

- Since the NTA will not sponsor programs similar to the Development Fund's employment creation schemes, the Development Fund may also wish to find ways to further integrate its training and employment schemes so as to better reach unemployed persons in its target population segments and, through a combination of training and community-based employment schemes, help these people to transition into the formal labor market following the acquisition of critical job skills.

- The Development Fund should recognize the limited possibility of securing significant on-going budgetary support for its programs from external sources, and concentrate on institutionalizing a policy of transferring 2 percent of the MSD Fund's free reserves on an annual basis to fund Development Fund programs and activities. This transfer should be accompanied by a continuation of support from the Ministry of Labor at the currently planned levels. Finally, the Fund should obtain Board approval for a change in its investment asset allocation strategy to that currently applicable for the SSC's MSD and Employees Compensation Funds (ECF).

- The Development Fund's approved operating budget already includes a significant increase in its staffing level, although the actual spending on salaries and wages for 2012/13 was less than one half of the amount budgeted for this purpose. The Development Fund should take immediate steps to appoint additional staff to adequately meet the needs of the increasing level of fund-sponsored activities. It is also recommended that the financial management function of each of the four Development Fund activities be separated from the technical management of those activities, and that a Senior Officer – Finance be appointed to manage the finance function. It is also recommended that several business processes, including the selection of bursary and study loan recipients, and the management of bursary and study loan disbursements, be examined, and where possible, redesigned to reduce the manual level of effort required to process applications and distribute awards. Finally, in order to help the SSC recover part of its investment in bursaries, loans, training and employment schemes, it will be important that the Fund develop business processes to track each "graduate" of its various programmes as they enter the workforce (with our without placement assistance from training providers and/or the DF) in order to ensure that proper payroll deductions are being made.

- It is recommended that Development Fund activities continue to be focused on the most vulnerable segments of the population, where "competition" from the NSFAF and NTA/NTF is least likely. In these segments, Development Fund activities will provide unique opportunities to population segments which may not be reached by other programs, including those of the NSFAF and NTA/NTF. The level of activities in these segments must of necessity start small as the Development Fund's staff acquires experience in working with these populations. As experience is developed, the program level will then grow to limits imposed by the availability of funding. Said differently, the level of Development Fund activities should not initially be thought of as a function of funding availability but rather as a function of organizational capacity to reach target population segments and serve them effectively with its various study, training, and employment programs.

1. Introduction and Background

The Social Security Act of 1994 established the Social Security Commission (SSC) and mandated the establishment of five funds, three of which had been implemented by mid-2013:

- Maternity Leave, Sick Leave and Death Benefits Fund (MSD): This Fund provides income support to female employees on maternity leave, income support to employees on sick leave, and pays a lump sum upon death of the member to family members or to member upon retirement or permanent disability. It is funded by a payroll tax of 1.8 percent, divided equally between the employee and employer, to a maximum wage ceiling of N$9,000 per month.
- Employees Compensation Fund (ECF): This Fund compensates employees for disablement due to accidents and industrial diseases arising out of and in the course of their employment. The ECF is funded by employers based on their annual wage bill, at rates which vary by industry.
- The Development Fund: The purpose of this Fund is to alleviate poverty, and to build capacity and skills through supporting employment and training schemes and the granting of bursaries and study loans. Although the Development Fund was established under the Social Security Act of 1994, no formal provision was made for its funding. According to the Act, "the SSC Development Fund may be funded through… (i) a portion of funds contributed from other SSC Funds; (ii) appropriated by Parliament; (iii) interest income; (iv) any donations." Through the end of FY 2012 it had received financing through transfers from the Ministry of Labor and the SSC's MSD fund, as well as investment earnings on its fund balance.
- National Medical Benefit Fund: The purpose of this Fund will be to pay medical benefits to all employees who are members. (This fund has not yet been implemented but work is underway including a broader discussion of its place within a national health insurance scheme).
- National Pension Fund: The purpose of this Fund will be to provide pension benefits to all employees that are members. (This Fund has not been implemented yet).

Although the Development Fund was established by the Social Security Act of 1994, it was only formally launched in 2011 when it began to grant bursaries to eligible students from underprivileged backgrounds. According to the Development Fund's Policy document, its objectives are to:

a) Contribute to the Government's national objectives of alleviating the skills shortage and reducing the unemployment rate;
b) Promote employment creation schemes and training programs;
c) Assist in acquiring specialized skills, and respond effectively to skill shortages in identified sectors;
d) Identify and collaborate with development agencies in the development arena with the aim of complimenting each other;
e) Initiate and advance innovations in training, capacity building and employment creation;
f) Create multiplier effects by integrating linkages between employment creation, capacity building, and technical capacity sustainability to create effective correlation between training, training support, and employment;
g) Render financial, technical and advisory assistance to the most sustainable training and employment schemes approved by the President (of Namibia) for the benefit of socio-economically disadvantaged persons who are unemployed while guaranteeing a quality portfolio.

h) Link the job-industries with training institutions in order to equip graduates who acquired theoretical knowledge with meaningful practical work experience taking the form of vacation jobs, internships, youth service programs, etc.

The Development Fund currently supports four activities: bursaries, study loans, vocational training schemes and employment schemes (to be discussed in greater detail below).

In 2012 a Strategic Business Plan for the SSC Development Fund was prepared by an external consulting group which highlighted the need for additional financial resources in order for the Development Fund to fulfill its mandate as expressed in the Social Security Act of 1994.

According to financial projections included in the Strategic Business Plan, by 2018 additional resources accounting for over 40 percent of the Development Fund's total annual revenue will be required to meet the Fund's objectives for all four activity areas (bursaries, study loans, training, and employment schemes).

Based on the projections included in the 2012 Strategic Business Plan, the Development Fund must further refine its strategy in order to:

- Determine the appropriate level of activities to be undertaken in fulfillment of its mission,
- Assure sustainable funding to finance those activities, and
- Develop an appropriate organizational structure and staffing plan to administer the Development Fund at the selected level of activities.

Given the nearly unlimited demand for Development Fund-sponsored activities in Namibia, together with very real resource constraints, the Development Fund's business plan must seek to balance a level and mix of sponsored activities with a realistic and sustainable strategy to assure their funding.

2. Scope and Objectives

This assessment has been designed to evaluate the current and potential financing mechanisms of the SSC Development Fund and use forecasting models to independently evaluate and project the Development Fund's sustainability. The outcomes of this activity will be as set of recommendations for improving the SSC Development Fund's sustainability over time.

The specific objectives of the assessment are to evaluate:

- *The financial sustainability of the SSC Development Fund*. Financial sustainability will ensure that the funding is adequate for current and future operations, including maintenance of reserves to cushion against potential funding short-falls.

- *The organizational sustainability of the SSC Development Fund.* This component will look at the SSC Development Fund's capacity to manage its operations efficiently and effectively to meet its mandates. The evaluation of organizational sustainability of the SSC Development Fund will consider various factors including, but not limited to: management structure, staff capacity (numbers and skills mix), quality of initiatives it funds, and performance of grant recipients. Failure in any of these areas can undermine the credibility of the Development Fund and its continued existence.

3. Methodology

The assessment methodology selected to achieve its objectives included four sets of activities, carried out sequentially:

- Document review: Prior to the field visit, analysts reviewed selected SSC Development Fund documents including the 2012 Strategic Business Plan, the SSC's Development Fund Policy, and other recent reports generated by the Health Systems 20/20 Namibia Project and the Health Finance and Governance Project.

- Field research: Two analysts traveled to Windhoek during the period July 22 – August 2, 2013 to undertake structured interviews with key stakeholders both within the Social Security Commission and its Development Fund, and in other organizations including the National Training Authority, the Namibia Student Financial Assistance Fund, MCA-Namibia, USAID/Namibia, the University of Namibia, and the German Society for International Cooperation (GIZ). These interviews led to the collection and compilation of numerous additional documents and reports including SSC financial statements and actuarial reports.

- Home office analysis and report writing: Following the analysts' return from Windhoek, an interactive quantitative model to project the Development Fund's financial situation under various activity and funding scenarios was developed and refined. The findings and conclusions from the quantitative model were integrated into a draft report to be presented to USAID/Namibia and the SSC and Development Fund senior management.

- Presentation of draft report: During a second visit to Windhoek, the lead analyst will present these findings and recommendations to the SSC and Development Fund senior management for their review and comments. SSC and Development Fund management comments will be incorporated into a revised final report to be delivered to both USAID/Namibia and the SSC Development Fund.

4. Situation Analysis

4.1 Activities

Following the formal launch of the Development Fund in 2011, four sets of activities were initiated: a bursary scheme under which the first cohort of students received four-year bursaries in 2011, a study loan scheme with the first loans granted in 2012, a training scheme with initial activities begun in 2013, and an employment scheme which will make initial awards in FY 2014. A "Development Fund Policy" document was approved in 2012 which established Board-approved policies regulating each of the four activities.

Bursary Scheme

The bursary scheme is designed to provide full four-year undergraduate scholarships in high-priority fields as identified in the National Human Resource Development Plan (currently engineering, social work, medical and artisan related and agricultural value-added). Bursaries are available for selected students to study at recognized tertiary-level institutions in Namibia or any other higher education institution in the Southern African Development Community (SADC) region. Criteria for awarding bursaries are designed to reach deserving and highly qualified students from vulnerable conditions or underserved populations who otherwise would not be able to obtain a tertiary level education. A condition common to all SSC-Development Fund activities is that applicants be unemployed at the time they submit their application for Development Fund assistance.

Table 1 presents the total number of applicants and the number of bursaries awarded for each year from the beginning of the activity in 2009 until 2013, as well as the ratio of applicants per award in each year.

Table 1: Bursary applications and awards, 2009 - 2013

	2009	2010	2011	2012	2013
Applicants	560	356	487	1818	493
Awards	24	27	24	30	38
Applicants/Award	23.3	13.2	20.3	60.6	13.3

As can be appreciated from the table above, the number of awards in relation to the total number of applicants is extremely small and is constrained primarily by the availability of funding. The limited number of bursaries available also makes a laborious selection process necessary in order to select those few awardees from a much larger number of similarly-qualified applicants. Once applications, which must include a proposed budget, are screened for completeness and eligibility they are presented to the Development Fund Committee, made up of the Development Fund's Manager and Managers from the other SSC Departments. This committee reviews all eligible applications and makes a final recommendation to the SSC Board of Commissioners, which generally verifies the decisions made by the Development Fund Committee.

Each bursary award includes an approved budget for the applicant's proposed course of study, which may range from one to four years of tertiary-level education or training. Approved budgets may include tuition, meals and accommodations, study materials, and on an exceptional basis, a travel allowance.

Once bursary awards are made, Development Fund staff make arrangements for disbursements, generally directly to the universities rather than to the awardees themselves, for tuition, meals and accommodations (when students are living in university-housing), and study materials. Additional disbursements may be made directly to students for incidental expenses and/or travel expenses. All disbursements are made based on invoices or similar documentation which must be obtained by awardees and forwarded to the Development Fund for processing and payment.

Study Loan Scheme

In addition to bursaries, student loans are made available to SSC Development Fund bursary holders who do not complete their first degree within the prescribed course period, other academically deserving students who cannot be accommodated by the bursary scheme, the purchase of study materials not covered under the general bursary conditions, and relevant fields of study not covered under the bursary scheme. Study loans are also available for students to pursue post-graduate studies.

Study loans are granted at concessionary rates of interest with a payback period of an average of four years. The study loan selection process is similar to that for bursaries and is, in fact, conducted simultaneously.

The number of applicants for study loans, together with the number of study loans approved and the ratio of applicants to approvals are presented in the Table 2:

Table 2: Study loan applications and awards 2012 - 2013

	2012	2013
Applicants	1319	184
Study Loans approved	25	25
Applicants/approvals	52.8	7.4

In contrast to bursaries, where annual budgets may range as high as N$70,000 per year, study loan amounts are generally made for smaller amounts in order to ensure that study loan recipients will be able to make their monthly payments.

Training Scheme

As presented in the Development Fund Policy document, “the Training and Employment schemes will promote, facilitate, encourage and support programmes that address the employment needs of Namibia’s socio-economically disadvantaged groups.”

The Development Fund’s training activities formally began in 2013 following a protracted period during which initial proposals for training programs were solicited and approved.

The initial round of Development Fund funded training programs began with a call for proposals published by the Development Fund, in which training providers registered with the National Training Authority (NTA) were invited to submit proposals to provide short-term vocational training programs to unemployed Namibians in fields where, based on the National Human Resources Plan, there currently exists or is expected to exist a significant skills gap.

Training providers were invited to submit proposals which included not only details of the training program itself, but also a list of program beneficiaries, all of whom must have been unemployed at the time the proposal is submitted, and a commitment to place a minimum of 50% of those completing the programme in employment. Following analysis and vetting by Development Fund and SSC personnel, programs recommended for approval were forwarded for approval to the Ministry of Labor and the Office of the President (the Social Security Act of 1994 requires that each training and employment program be approved by the President of Namibia). The following training programs in Table 3 were initiated in 2013:

Table 3: Training programs and beneficiaries (2013)

Training program	Number of beneficiaries
Domestic service	300
Fork lift operators	896*
Welding, bricklaying and piping	102
Front office administration	80
International Computer Driving License (ICDL)	110
Hospitality (food preparation, food & beverage)	148
Culinary arts	10
Total	**1,646**

*Of which 25% continued on to a second training program for heavy machinery operators.

Although some programs would be for as long as nine months, the average training program duration was between three and four months. According to the Development Fund's Strategic Business Plan, the 2013 training program was expected to reach 1,500 beneficiaries, but this number would drop to 550 beginning in 2014. The average cost per beneficiary was estimated to be N$9,000.

Employment Scheme

Employment schemes are designed to "contribute meaningfully to the reduction of unemployment and the upliftment of the livelihoods of the people of Namibia, especially those living under harsh conditions."[1] These programs provide salary support for an average of two years for unemployed Namibians from vulnerable or underprivileged populations who are employed in newly-created projects or activities undertaken by development agencies (or implementing partners) such as community based organizations, non-governmental organizations, traditional and local authorities, institutions representing employees and employers, cooperative and farmers' unions, regional councils and their respective development communities, conservancies, and community forests. Funds provided to the Development Agencies may be in the form of either grants or loans, depending on the nature of the activity to be funded and the possibility of a financial return on the investment.

[1] "Application Guidelines for Employment Schemes" (Social Security Commission: Employment Schemes, www.ssc.org.na)

Projects or activities funded under the Development Fund Employment Scheme might range from community infrastructure and community development programs or social services to apprenticeships and internships. The basic approach of the employment schemes is to encourage and support civil society organizations while at the same time providing the means to bring unemployed persons into the workforce through the creation of new jobs which by the end of the Development Fund employment subsidy would become self-sustaining positions. Although in practice many of the employment schemes sponsored by development agencies may not become fully sustainable, the Development Fund employment schemes are an important source of financial support to civil society organizations and the communities they serve while also providing income support and job training/experience to unemployed persons which will improve both their skills levels and their readiness for either additional vocational training or full-time employment.

The Development Fund's initial round of employment schemes began with a call for proposals to Development Agencies which elicited over 2,000 applications. As in the case of training schemes, the applications for employment schemes included the names of those unemployed persons who would be the direct beneficiaries of the proposed programs or activities. Following an extensive review process to assure both the viability and impact of the scheme itself as well as assure an appropriate regional allocation across the country, a total of 27 employment schemes were selected to be forwarded to the Ministry of Labor and the Office of the President for approval. Once approved by the Ministry of Labor and the Office of the President (a year-long process), contracts are to be re-negotiated with the respective Development Agencies so as to update the names of the intended beneficiaries and their status as unemployed persons. It is expected that the initial employment schemes will be formally approved before the end of calendar year 2013.

Appendix 1 presents the names and brief descriptions of each of the 27 approved employment schemes, placed on a map of Namibia to indicate their geographical distribution.

It is to be noted that many of the 27 schemes are primarily oriented towards vocational training, and it may be expected that even those whose primary focus is not training will provide skills to their beneficiaries which will help them to obtain employment following the end of the program. There is, however, an important distinction between the training activities offered through the employment schemes in partnership with development agencies, and those offered by training providers through the Development Fund's training scheme. Under the latter, training providers must be registered by the National Training Authority (NTA). NTA registration, a process begun only recently as a result of the Vocational Education and Training Act of 2008, requires compliance with a set of standards involving legal status, existence of permanent training sites with appropriate equipment, etc., which many of the development agencies may not meet and which disqualify them from submitting proposals as training providers under the training scheme. In general, those training providers which have been registered to date with the NTA are oriented towards providing vocational training to individuals who have completed or nearly completed their secondary education, while the development agencies which are providing training under the Development Fund's employment scheme tend to focus on persons with little or no formal education at all.

4.2 Organization and Staffing

The SSC Development Fund currently employs only three people on a full-time basis, supplemented with part-time clerical assistance during specific times of year. In addition to the Development Fund's permanent staff, the Development Fund Committee, composed of the Managers of the Development Fund and other SSC departments, invests significant time and energy in the various selection processes made necessary by the large number of qualified applications received for its programs and the number of awards it is able to make.

Overall responsibility for all DF activities, as well as direct responsibility for the management of the DF's Training Scheme, rests with the Development Fund's Manager, who reports to the SSC's Acting Executive Director.

The Officer for Employment Creation Projects manages the employment schemes, while the Senior Officer – Monitoring and Evaluation is currently responsible for both the implementation and management of the Development Fund's Monitoring and Evaluation (M&E) strategy, and for managing the Development Fund's bursary and study loans activities. It is noted that the M&E program management responsibilities were only recently added to this individual's existing responsibilities for the bursary and study loans program, and it is expected that additional staff will soon be hired to separate the two positions.

While all three permanent staff members appear to be both well-qualified and highly motivated, it is also apparent that the current level of Development Fund operations is straining the organization's current capacity and that any increase in the Development Fund's activity level, including increases which are currently scheduled as per the Strategic Business Plan, will require both additional staff and more streamlined operating systems.

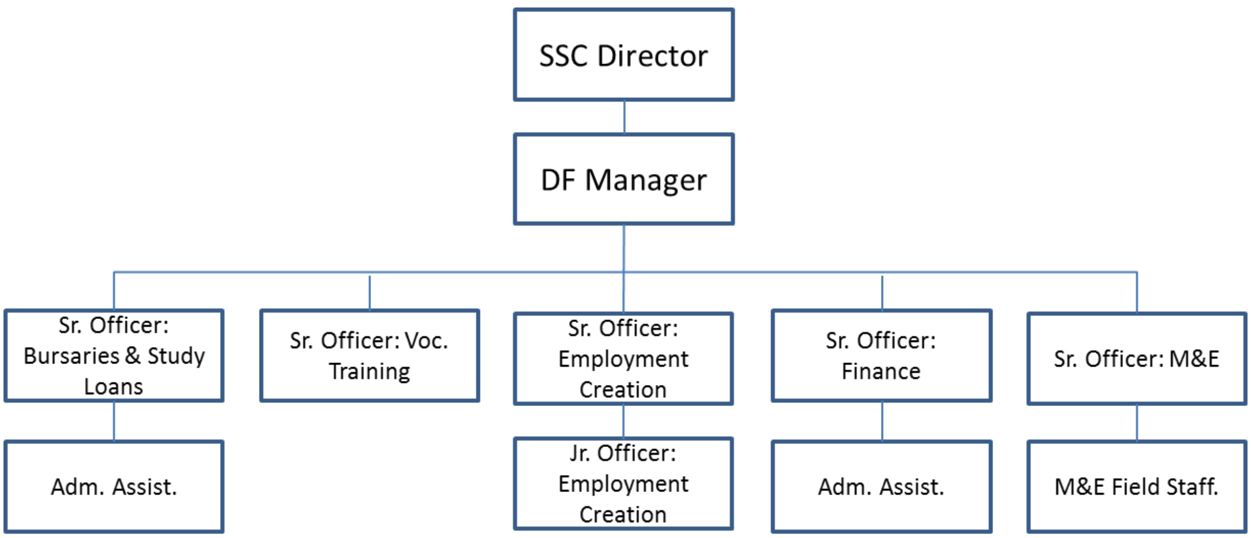
The Development Fund's current organizational structure places responsibility for all tasks related to both the technical and financial management of each of the fund's activities (bursaries, study loans, vocational training, and employment creation) in a single individual who, in the case of the DF Manager and the Senior Officer: Monitoring and Evaluation, also have additional responsibilities. In most cases, management of both the technical and financial functions related to a given activity either now exceed or soon will exceed the capacity of one individual. It therefore may be appropriate for the DF to create several new positions and reassign responsibilities in the following manner:

- Development Fund – Manager: A member of the SSC Management Team with responsibility for the overall strategic and operational management of the Fund.
- Senior Officer – Finance: Responsible for all financial management processes for all Development Fund activities, including the receipt and analysis of all disbursement vouchers and any milestone indicators which may be conditions precedent for disbursements, as well as all cash management and financial reporting functions carried out in close coordination with the central SSC financial management unit. This position will require an appropriate level of supporting personnel.
- Senior Officer – Bursaries and Study Loans: Responsible for the management of the selection, award and program monitoring processes.

- Senior Officer – Vocational Training: Responsible for the management of the selection, award and program monitoring processes.
- Senior Officer – Employment Creation: Responsible for the management of the selection, award and program monitoring processes. Given the magnitude of this task, especially during the 2013/14 year when 26 new employment schemes are included in the Fund's Strategic Business Plan, an Associate or Junior Employment Creation Officer may also be required.
- Senior Officer – Monitoring and Evaluation: Responsible for managing all field monitoring activities in close coordination with the program officers, as well as the development and distribution of M&E reports to the Fund's internal and external stakeholders. This position will require an appropriate level of supporting personnel to fulfill the program monitoring requirements of the various program directors.

A suggested organizational chart incorporating the positions described above is presented as Figure 1.

Figure 1: Suggested Development Fund Organizational Chart



During the field visit portion of this assessment, it was observed that many of the Development Fund's work processes are highly labor-intensive and may be streamlined through process redesign and/or the implementation of appropriate information technology. Two particular work processes in need of improvement stand out:

- Criteria for selection of awards for bursaries, study loans, and employment schemes: Due to the Development Fund's limited scale of operations in the face of Namibia's large needs for education, training and employment, and its requirement that calls for applications or proposals be designed to reach vulnerable and underserved segments of the population throughout the country, it is to be expected that the response to such calls for applications or proposals would be massive. The lack of objective criteria necessary to reduce the number of qualified applications or proposals to manageable levels necessitates a highly subjective and labor intensive final selection process which probably does not lead to a significantly better qualified pool of awardees than would a random selection of qualified applications. Efforts to bring the number of applications into closer alignment with the number of awards by tightening the selection criteria so as to focus more directly on selected target populations would improve both the quality and efficiency of the selection process.

- Administration of bursaries and study loans: As described previously, each bursary and study loan is administered by a Development Fund staff member who receives invoices or payment requests from students and manually processes the payments, recording all financial entries on a series of Microsoft Excel spreadsheets. With as many as 140 bursary recipients and a similar number of study loan recipients, this is indeed a time consuming process which may be improved by automation through debit cards, web-based financial management software, or other similar technologies.

In addition to these two specific processes, the recently inaugurated training and employment schemes also appear to be highly labor intensive due to the oversight and monitoring activities associated with each individual program. The recently designed M&E program will only increase the labor intensity of program administration unless well-designed management information systems are put into place and the Development Fund staff is modestly increased.

4.3 Finances

Funding for the Development Fund between 2010 and 2012 consisted of allocations from the Ministry of Labor's budget of between N$4.2 million and N$9.5 million per year, transfers from MSD Fund's "free reserves"[2] ranging from N$14.3 million to N$35.1 million per year, and investment returns on the Development Fund's balance which have contributed between N$3.8 million and N$11.1 million per year, for total annual revenue ranging from N$27.6 million to N$51.8 million per year (see Table 4). These funds have been used to finance operating expenses as well as training activities (2010 only) and study schemes (bursaries and study loans) in 2011 and 2012.

In addition to the annual allocations, the Development Fund itself had accumulated a fund balance of N$127 million by the end of FY 2012, which serves as a source of investment income to partially offset Development Fund activities. The SSC's Board of Commissioners has mandated that the Development Fund maintain a minimum balance of N$100 million as a cushion to guarantee the continuation of activities in the event of a funding shortfall.

It is noted that SSC Investment Policy, last revised in August, 2010, requires that 40 percent of the Development Fund's portfolio be invested in the Namibian and CMA money market. A revision of the DF asset allocation policy to allow a greater portion to be invested in bonds and/or equities would have a substantial impact on the fund's investment income. In 2012 the MSD and EC Funds' investment incomes were equal to 9.26% and 8.79%, respectively, of the sum of their investments and cash equivalents; the equivalent figure for the DF was 4.57% - which actually indicates a negative real rate of return given the 2012 average inflation rate of 5.71%. Had the DF enjoyed investment returns similar to those of the MSD and ECF, it would have added approximately N$6 million to its total revenue.

[2] MSD Free Reserves are defined as the difference between the MSD Fund's total assets and the actuarial valuation of its liabilities.

As indicated previously, the Development Fund's 2012 Strategic Business Plan proposed activity levels of:

- 35 new bursaries to be awarded each year,
- 35 new study loans to be awarded each year,
- 10 training schemes to be awarded in FY 2014 followed by 5 per year until FY 2018, and
- 26 employment schemes to be awarded in FY 2014 followed by 13 per year until FY 2018.

Assuming a continuation of funding at approximately their current levels from both the MSD and the Ministry of Labor, a funding short fall would occur necessitating an additional N$17 million in 2017 and N$22 million in 2018 in order to avoid a reduction of the Development Fund's balance below N$100 million. Additional funds at approximately this same level would be required each year beyond 2018 in order for the Development Fund to maintain its operations as envisioned in the Strategic Business Plan. A "Resource Mobilization Strategy" was recommended in the Strategic Business Plan to identify and secure additional funding to enable the Development Fund to implement its five-year activity plan and maintain future activities at the same level.

Table 4: SSC Development Fund Financial Statements 2007 – 2012 (N$)

	2007	2008	2009	2010	2011	2012
INCOME STATEMENT						
Contributions from MSD				14,320,180	35,111,134	25,082,000
Government grants				9,500,000	5,550,000	4,200,000
Other income	-219	-219				
Investment income	1,813,927	2,308,851	2,644,669	3,827,752	11,125,303	5,996,891
Total revenue	**1,813,708**	**2,308,632**	**2,644,669**	**27,647,932**	**51,786,437**	**35,278,891**
Training schemes				1,107,000		
Study schemes			502,200	41,471	1,285,249	7,655,678
Total program expenses	1,500,000	1,100,000	502,200	1,148,471	1,285,249	7,655,678
Operating expenses	398,749	494,618	549,150	491,324	541,587	2,300,543
Total expenses	**1,898,749**	**1,594,618**	**1,051,350**	**1,639,795**	**1,826,836**	**9,956,221**
Surplus for year	**-85,041**	**714,014**	**1,593,319**	**26,008,137**	**49,959,601**	**25,322,670**
BALANCE SHEET						
ASSETS						
Non-current assets	**47,178**	**37,267**	**27,356**	**32,607**	**23,687**	**14,996**
Property, plant and equipment	47,178	37,267	27,356	32,607	23,687	14,996
Long term receivable						
Current assets	**23,430,658**	**25,294,526**	**26,385,055**	**51,870,564**	**102,058,962**	**131,405,594**
Investments	22,332,638	24,581,622	26,090,908	50,895,524	101,338,740	131,356,357
Accounts receivable		8,643	3,136	7,644		49,237
Cash and cash equivalents	1,098,020	704,261	291,011	967,396	720,222	
Total assets	**23,477,836**	**25,331,793**	**26,412,411**	**51,903,171**	**102,082,649**	**131,420,590**
FUNDS AND LIABILITIES						
Funds and reserves	**23,402,757**	**24,116,770**	**25,710,090**	**51,718,227**	**101,677,828**	**127,000,498**
Accumulated Fund	23,402,757	24,116,770	25,710,090	51,718,227	101,677,828	127,000,498
Current liabilities	**75,079**	**1,215,022**	**702,321**	**184,944**	**404,821**	**4,420,092**
Trade and other payables	75,079	1,215,022	702,321	184,944	404,821	4,008,975
Bank overdraft						411,117
Total funds and liabilities	**23,477,836**	**25,331,792**	**26,412,411**	**51,903,171**	**102,082,649**	**131,420,590**
Return on investments	*8.12%*	*9.39%*	*10.14%*	*7.52%*	*10.98%*	*4.57%*

Source: Calculations by author based on SSC Audited Financial Statements 2008 – 2012

5. Development Fund Activities in the National Context

Although the Development Fund was established as one of the five funds to be managed by the Social Security Commission by the Social Security Act of 1994, two Acts of Parliament – the Namibia Student Financial Assistance Fund Act of 2000 and the National Training Act of 2008 – together with portions of the MCA-Namibia Education Project, have affected both the place of the Development Fund in addressing Namibia's challenges of alleviating the skills shortage and reducing the unemployment rate, and the funding environment in which the Development Fund might seek to supplement internally generated funds with financial resources from non-SSC sources.

5.1 Bursaries and Student Loans

The Namibia Student Financial Assistance Fund (NSFAF), which grew out of the pre-independence Public Service bursary scheme and was formalized in the NSFAF Act of 2000, provides both grants and study loans to Namibian students and administers scholarship programs offered by foreign governments. Prior to 2010, most NSFAF funding for tertiary education was provided in the form of study loans, with an alarmingly low recovery rate of only a 10 percent.

However, within the past two years, several major changes have occurred resulting in NSFAF becoming the dominant institution in providing tertiary financing for Namibian students:

- On May 1, 2013, the NSFAF, which had been a Division of the Ministry of Education, became an independent unit within the Ministry, reporting to its own Board of Directors. This change has given it a significantly greater degree of autonomy and flexibility and allows it to take fuller advantage of support provided to it from both within and outside of the Government of Namibia.
- The MCA Namibia Compact's Education Activity 5 (Expanding and improving access to tertiary finance) has provided technical assistance to the NSFAF to enable it to improve its internal policies, processes and procedures (including study loan payments), automate many of its administrative tasks, and improve its M&E function.
- NSFAF's annual budget allocation from the Ministry of Education has been dramatically increased to a total of N$600 million from the 2010/11 level of approximately N$225 million, of which N$563 million is destined for loans and scholarships (or bursaries). According to NSFAF sources, current policy is to allocate these funds:
    - 10 percent for merit-based scholarships without restrictions on the recipients' chosen fields of studies,
    - 20 percent for scholarships in priority fields of study, and
    - 70 percent, primarily in the form of study loans, for non-priority fields of study or applicants who did not qualify for scholarships in priority fields of study.

Efforts are made to ensure an appropriate geographical distribution of all scholarships and study loans.

NSFAF expects to provide scholarships or grants to approximately 8,000 new students each year. Of these, approximately 30 percent or 2,400 new students each year will receive scholarships.

Study loans will carry an interest rate of half of the prime rate, and repayment will be conditioned to each borrower's financial situation such that no borrower will be required to make annual payments in excess of 8 percent of his or her gross annual income. The NSFAF plans to outsource loan payment collections and is currently in discussions with the Social Security Commission to explore the possibility that the SSC will handle collections.

In addition to the NSFAF and the SSC Development Fund, several other government and private sector organizations, including the Namibian Power Corporation, the Petro Fund, the Bank of Namibia, Telecom Namibia, and various Ministries all provide small numbers of bursaries each year, generally in the range of 10 to 20, and generally with the stipulation that the bursary recipients return to work for the organization which has financed their studies.

With the significantly expanded role of the NSFAF and its potential to provide as many as 2,400 new scholarships each year, it will be important for the SSC Development Fund to establish a unique market niche, scaled roughly to its capacity to provide bursaries and study loans, in order to avoid screening large numbers of candidates who also qualify for NSFAF financing. To avoid an unproductive duplication of effort, the SCC Development Fund may wish to focus its bursaries and study loans only on those segments of the general population which are unlikely to apply or qualify for NSFAF financing due to their geographical isolation, chosen field of study, need for remedial education prior to beginning tertiary studies, status as adult learners, or other factors common to the target population of other SSC Development Fund programs.

5.2 Training and Employment Schemes

Vocational education and training in Namibia has been offered since independence primarily through four government-financed Vocational Training Centers (VTCs) which targeted only those applicants who had completed or nearly completed their secondary education. Due to capacity constraints, the VTCs were only able to serve a small portion of that target. Although a large number of less formal vocational training programs existed, including Community Skills Development Centers (COSDECS) and others sponsored primarily by national and international NGOs, no formal system existed to provide basic vocational skills to persons with little or no formal education, and the nature of the training programs which were offered was based more on the interests and capacities of the Training Providers than on a formal assessment of unmet skills requirements.

The National Training Act of 2008 established the National Training Authority (NTA) as an institution to both manage the several VTCs and to increase the quality and availability of vocational education and training throughout the country by establishing and maintaining a process to register additional Training Providers. The National Training Act was accompanied by technical assistance and funding through the MCA Namibia Compact to improve and expand Namibia's network of COSDECS, establish a National Training Fund, and provide for grants for high-priority vocational training programs while the National Vocational Training Levy (described below) was being designed and implemented.

Among the NTA's various functions is the registration of all Training Providers, including both the VTAs and private providers, which satisfy certain minimum requirements regarding their legal status, institutional capacity and training facilities and equipment. As of mid-2013, 23 Training Providers had been registered. Many additional training providers, including the COSDECS and others which up until now have been supported primarily through private donations or NGOs, have not been registered either due to their inability to satisfy registration requirements, or a lack of urgency due to their current funding situation.

An important objective of the NTA is to convert Namibia’s vocational education and training programs from a supply-driven focus based on the interests and competencies of the training providers, to a demand-driven training model driven by Namibia’s skills requirements as identified by surveys such as the National Human Resources Plan.

In order to enable the NTA to implement a demand-driven vocational education and training program to better meet the needs of the country, the National Training Act of 2008 also provided for the creation of a National Training Fund (NTF) which is to be financed by a 1.5 percent levy on employers’ total payrolls. Although the levy has yet to be implemented, it is expected to generate approximately N$400 million – N$500 million. Current plans, which have to date not received final approval, are to allocate the funds raised through this levy as follows:

50% (N$200 - 250 million)	Maximum amount of “drawback” for in-company training programs for current employees
35% (N$140 - 175 million)	NTA-sponsored programs in high priority areas, open to employed and unemployed
15% (N$60 - 75 million)	NTA/NTF administration, including surveys and “Industry Skills Committees” to identify skills gaps and training needs

Operationally, once levy-generated funding is in place, the NTA will identify and prioritize training needs and issue calls for expressions of interest to registered Training Providers to submit proposals for funding. Training Providers will be responsible for the recruitment of trainees and for providing the NTA with data to measure their performance.

One issue of current importance is the lack of registered training providers of programs targeted to persons with minimal levels of formal education and an assumed bias within the NTA for vocational training programs similar to those traditionally offered by the VTAs for individuals with a higher level of formal education and basic skills. The relative lack of formal institutional status and management systems among training providers focusing on the poorest and most vulnerable segments of the population and those without formal education may constitute a barrier for such providers to bid for and be awarded training contracts by the NTA.

As is the case for the SSC Development Fund’s bursaries and study loans activities, given the presence and expected level of funding for NTA-sponsored vocational training programs, the DF may wish to further refine its target market and unique approach to providing vocational training to the poorest and most vulnerable segments of the general population in order to avoid needless overlap with NTA-sponsored activities. The Development Fund may also wish to explore the possibility of assuming a leadership role in serving these target segments by setting standards and assuming the coordinating and administrative functions of training providers serving the Fund's target segments when these providers are unable to assume these functions themselves. In this way, the DF may actually be in a position to work with the NTA by offering a vehicle through which the NTA may channel financing to programs targeting poor and vulnerable population segments, conducted by training providers who are unable by themselves to meet NTA registration requirements.

Since the Development Fund's training programs have yet to complete the first round of training followed by job placement, it is unclear at this time how successful the training providers will be in meeting their requirement to place a minimum of 50% of their trainees in employment. Given the nature of the DF's target segment, it may be necessary for the Fund itself to also assume a placement role for those completing its training programs.

Since the NTA will not sponsor programs similar to the Development Fund's Employment Schemes, the Development Fund may also wish to find ways to further integrate its training and employment schemes so as to better reach unemployed persons in its target population segments and, through a combination of training and community-based employment schemes, help these people to transition into the formal labor market following the acquisition of critical job skills.

6. Potential for External Resource Mobilization

The SSC Development Fund's 2012 Strategic Business Plan calls for a "Resource Mobilization Strategy" in order to provide funds on an on-going basis to fill the gap between budgetary allocations it expects to receive from the Ministry of Labor, transfers from the MSD Fund and investment income, and its planned level of expenditures. This section examines the potential for resource mobilization from the international development assistance community which currently is active in Namibia.

6.1 International Development Assistance Programs

With a 2012 GNI per capita of US$5,670 (Atlas method) and US$7,470 (PPP method)[3], Namibia is classified by the World Bank as an upper middle income country and as such, is not a primary target country for most international development assistance programs. Nevertheless, Namibia has received development assistance in recent years from the United Nations Development Program (UNDP), the European Union (EU), the German Society for International Cooperation (GIZ) on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), the United States Agency for International Development (USAID), and the United States Millennium Challenge Corporation (MCC). Unfortunately, in several cases, including the United States President's Emergency Plan for AIDS Relief (PEPFAR) program, development cooperation programs are nearing their end with no firm commitment for additional funding. In others, the focus of the assistance is either in areas which are distant from those of the SSC Development Fund, or assistance focused on education and vocational training is being used primarily to support the Namibia Student Financial Assistance Fund and the National Training Authority.

The UNDP Program in Namibia is primarily focused on providing technical assistance in the areas of economic policy and poverty; energy, environment and climate change; and governance, gender, and HIV/AIDS. Its activities in the area of economic policy and poverty consist primarily of the production and dissemination of strategic analytical studies, promotion of policy dialogue and advocacy, support for development of policies and programs that promote economic growth and poverty reduction, and monitoring, evaluation and communication of progress towards the realization of strategic national, program and project objectives and results.

The European Community's Namibia Country Strategy and National Indicative Program 2008 – 2013 included a specific focus on human resources development with a budget of €42.15 million. Within this focal sector, specific support was envisioned for general education; vocational education and training; tertiary education and training; knowledge and innovation; information, adult and lifelong learning; informational communication technology (ITC) in education; and HIV/AIDS mainstreaming. In the area of vocational education and training (VET), weakness in the overall VET system were noted and budgetary support was intended to support government efforts to reform the system and improve its management capacity – objectives which were also the focus of the MCA –

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[3] The "Atlas" method measures GNI using official exchange rates; the PPP (Purchasing Power Parity) method uses exchange rates which reflect equal purchasing power and eliminate the effects of an over- or undervalued exchange rate.

Namibia compact and have been discussed previously. In the area of tertiary education and training, the first step in improving the quality at this level was perceived to be to raise the quality of the intake – in order words, to improve pre-entry and foundation courses, especially in language, science and mathematics, with special emphasis on disadvantaged groups, and resources were expected to be targeted in this area. As the current EU program draws to a close, it will be important to closely monitor the EU Commission's plans for its next five-year program in Namibia.

The GIZ-sponsored activities in Namibia include Promotion of Vocational Training, a program initiated in 2012 and lasting until 2021. This program recognizes that a lack of high-quality vocational education graduates is the core problem facing the Namibian labor market and seeks to develop a quality management system for the vocational training system and to improve vocational training in key economic sectors. Its specific focus is to provide advisory and further training measures to improve the expertise, resources and capacities of the Namibia Training Authority (NTA). It is noted that MCA-N and GIZ are both working with the NTA, with MCA-N focusing on helping the National Training Fund to become operational, while the GIZ is focusing more on NTA institutional improvement. Although the MCA-Namibia Compact support to the NTA will end 2014, the GIZ program will continue until 2021, and it is expected that its primary focus will continue to be on working with and through the National Training Authority.

Since 1991, USAID has sponsored programs in Namibia focusing on HIV/AIDS and TB prevention, care and treatment; improving basic education; protecting the environment while helping communities; and strengthening democracy. In recent years its primary focus has been on HIV/AIDS and health systems strengthening, with funding of these program areas through the U.S. President's Emergency Plan for AIDS Relief. Due to shrinking budgetary allocations it is not expected that USAID will increase its level of assistance to Namibia nor return to a wider area of programmatic focus, although current plans are to continue to provide limited levels of support to further strengthen Namibia's health sector, including assistance in the design and implementation of a national health insurance program.

As described in previous sections, the United States Government's Millennium Challenge Corporation (MCC) entered into a compact with the Government of Namibia in 2008 under which US$304.5 million was donated by the MCC to be spent between 2009 and 2014 to reduce poverty and accelerate economic growth, with primary focus on agriculture, education and tourism. Within the Education Component of the Compact, Activity 4, expanding vocational and skills training included three sub activities: Improvement and expansion of Namibia's network of COSDECs, technical assistance to establish a National Training Fund, and competitive grants for high-priority vocational training programs. Activity 5, expanding and improving access to tertiary finance, focused on providing technical assistance to the Ministry of Education to fast-track the Namibia Student Financial Assistance Fund reengineering. In the cases of both the NSFAF and the NTA, support was received to assist these two institutions in order to develop their institutional capacities to manage resources which are being made available to them on a permanent basis either through the Government's central budget or as the proceeds of a special-purpose employment tax which has received Parliamentary approval.

6.2 Private International Foundations

While short-term assistance may be available from a number of private international NGOs on a project-by-project basis, it is doubtful that any such organization will be willing to make a long term commitment to fund the Development Fund's operational costs in the absence of a realistic plan to eventually become self-sustaining and a convincing argument on why the Fund's activities should be supported in light of the much larger and sustainably-funded NSFAF and NTA. Furthermore, in the case of the larger non-governmental organizations and foundations such as the Bill and Melinda Gates Foundation (BMGF), development assistance is generally provided in the context of those organization's own development strategies and programs rather than simply as financial support for a local initiative.

6.3 Government of Namibia

Previous sections of this report have already discussed the Government of Namibia's commitment to support the Namibia Students Financial Assistance Fund (NSFAF) with an annual budget of N$600 million, and the passage and imminent implementation of a training levy of 1.5 percent of payrolls, which is expected to provide N$400 to N$500 million annually to the National Training Fund, which will be administered by the National Training Authority. Accompanying these mechanisms to provide funding for Namibia's tertiary and vocational education programs, the Government of Namibia, acting through the MCA Namibia, directed significant additional resources, donated by the Millennium Challenge Corporation of the United States, to improve the organization and management of the two semi-autonomous organizations which will manage these funds.

Given the Government's commitment to the NSFAF and the NTF/NTA, it is unlikely that additional Government financial resources will be available to fund additional tertiary and vocational education and training projects sponsored by the SSC Development Fund unless such programs can be demonstrated to compliment rather than duplicate the activities of the much larger programs.

6.4 Conclusions

As may be concluded from the above analysis, the likelihood that the SSC Development Fund will be successful in securing long-term budgetary support from either the international development assistance community (public and private) or the Government of Namibia is not high for the following six reasons:

- In an era of shrinking development assistance budgets in many of the countries which have traditionally supported Namibia's development in past years, Namibia's status as a upper-middle income country gives it a lower priority in the allocation of scarce development funding.
- Much of the recent and continuing funding from the international development community has been focused in combating the HIV/AIDS epidemic and assisting Namibia in the further strengthening of its health system.
- Funds for education and training have primarily come from the MCA-Namibia Compact and GIZ and have been focused on the strengthening of the Namibia Student Financial Assistance Fund and the National Training Authority.

- The MCA-Namibia and GIZ programs have been accompanied by Government of Namibia initiatives to create or strengthen sustainable long-term Namibian-source financing to support student bursaries and study loans, and vocational education and training through the NSFAF and NTF/NTA, respectively.
- Given the current and future level of support for the NSFAF and NTF/NTA, international development assistance or Government of Namibia financing would only be justified for additional tertiary or vocational educational and training programs if such programs can be convincingly demonstrated to compliment rather than duplicate the existing NSFAF and NTF/NTA programs.
- As is evident from the support given to the NSFAF and NTA, development assistance is generally provided to help local institutions to develop the means to provide their services on an on-going and sustainable basis without recourse to permanent outside funding. Projects which seek the support of the international development community to provide operational subsidies without credible plans to become self-sustaining are not likely to receive funding.

7. Financial Returns to SSC Investment in Development Fund Activities

In the absence of obvious sources of budgetary support from the international donor community, it may be useful to examine the "payback" to the Social Security Commission itself (or more specifically, to its MSD and ECF Funds) in terms of increased revenues to the SSC in the form of payroll taxes on new workers who have entered the labor force as a result of Development Fund vocational training programs. A tool to estimate the financial return to SSC Development Fund investment in vocational training was developed as part of this assessment and is included in the financial assessment toolkit which accompanies this report.

The financial return to investment in vocational education compares lifetime payments into the MSD Fund by individuals who have received training through the SSC Development Fund's vocational training scheme with the cost of the training, by calculating the Net Present Value (NPV) for all future contributions into the SSC's MSD Fund and comparing that figure with the cost of the training. The Internal Rate of Return (IRR) indicates the rate of return on the investment.

The NPV and IRR of the SSC's investment in vocational training, together with the assumptions made in their calculation, are presented in the following table. (Please see also the notes following the table.)

Table 5: Returns to Investment in Vocational Training

Training cost per trainee:	N$9,000
% of trainees placed in year following training:	70%
Starting salary/mo. of newly placed trainees	N$3,000
Net job attrition/yr. after 4 years	5%
MSD tax rate	1.8%
MSD salary ceiling/mo. in year 1	N$9,000
Inflation rate/year	6%
Real salary increase/yr (amount over inflation)	3%
Years of post-training employment	40
Discount rate	6%
Net Present Value (NPV) of Investment in Vocational Training	**N$5,360**
Internal Rate of Return (IRR) of Investment in Vocational Training	**8%**

Notes:

1. While training providers are required to place a minimum of 50% of the trainees in full-time jobs, not all trainees will be placed immediately. It is assumed that those not placed during the year immediately following the training program will find jobs during the next 4 years, offsetting attrition of employed trainees. It is further assumed that trainees would not have found permanent employment in the absence of the training program.
2. It is assumed that the current MSD salary ceiling of N$9,000 will be raised each year with inflation, which has averaged 6% in recent years.
3. The NPV and IRR returns are based on MSD employee and employer contributions only.

These assumptions can be altered in the interactive tool which accompanies this report, to reflect different sets of assumptions. For example, if the starting salary is dropped to N$2,500, the NPV would be N$2,445 and the IRR would be 7percent. If the percent of trainees placed in year following training is dropped to 60 percent and a starting salary is maintained at N$2,500, the NPV would be N$424 and the IRR would be 6 percent.

These calculations demonstrate that a Development Fund trainee's lifetime contributions into the MSD Fund will offset the Fund's investment in his/her training, after applying a discount rate of 6 percent to reflect the Development Fund's current average rate of return in its investments. The second calculation, the Internal Rate of Return, indicates that the return on investment in training is both higher than the rate of inflation and higher than the 6% return that the SSC is currently receiving on the investment of is capital.

The implications of these results are that investment of SSC funds in vocational training is "good business" in that such an investment generates, over the long term, a higher rate of return to the SSC than its current investment portfolio. Unfortunately, the return on investment for the other three SSC Development Fund activities (bursaries, study loans and employment schemes) are considerably more difficult to estimate and less likely to be positive, although with an effective loan payment collection mechanism, the study loan scheme should pay for most of its costs.

8. Financial Sustainability Analysis

The interactive model developed as part of this assessment to predict the Development Fund's financial sustainability over the next five years is based on the approach used in the model developed as part of the 2012 Strategic Business Plan. However, this model incorporates a number of different activity and funding scenarios and allows users to modify a number of other assumptions. Given the SSC Board mandate to maintain a minimum Development Fund balance of N$100 million, the model's main output is an estimation of the Development Fund balance at the end of FY 2018 for each of 16 activity and funding scenarios. Additional outputs are projected operating statements through 2018 for each of 16 scenarios, and a calculation of the net present value (NPV) and internal rate of return (IRR) for the SSC's investment in vocational training programs, using incremental contributions to the MSD by newly employed trainees as income offsetting the Development Fund's investment in training.

The following are the primary sources for data used to populate the model:

- SSC Development Fund Strategic Business Plan (2012) Balanced Scorecard for base-line activity scenarios and costs
- SSC Development Fund budget for additional operating and capital expenditures projections
- SSC Audited Financial Statements (2008 through 2012) for MSD, ECF and DF historical financial information
- Jacques Malan Consultants & Actuaries for actuarial valuation of MSD and ECF fund's liabilities (2007 – 2012)

8.1 Activity and Funding Scenarios

Four activity and four funding scenarios were developed and used to calculate both projected Operating Statements and Development Fund balances. The base line activity and funding scenarios are those presented in the 2012 Strategic Business Plan, modified only with more recent information regarding contributions to the Development Fund by the Ministry of Labor. Additional scenarios were developed as described below. The values for input variables for each activity and funding scenario are presented in Appendix 2.

In addition to the four activity and four funding scenarios presented below, additional scenarios can easily be created using the interactive software package which accompanies this report by substituting new values for those which appear in the Input Values table.

Activity Scenarios

Activity Scenario A: The level of activities for this scenario is as presented in the Balanced Scorecard included in the Strategic Business Plan (2012). This scenario calls for 35 new bursaries and 35 new study loans each year; 1500 vocational trainees in 2013/14 followed by 550 new trainees in each of the following years, and 26 employment schemes in 2013/14 followed by 13 new employment schemes in each of the following years.

Activity Scenario B: In this scenario, a very modest increase in the number of activities is contemplated, with the number of bursaries increased to 40 per year, the number of study loans gradually increasing to 40 by 2018, 600 new trainees per year after 2013/14, and the number of employment schemes after 2013/14 increased to 15/year.

Activity Scenario C: This scenario represents a more aggressive increase in the level of Development Fund activities, with 50 new bursaries each year, 40 new study loans per year, 750 new trainees after 2013/14, and 15 new employment schemes after 2013/14.

Activity Scenario D: This final scenario represents a reallocation of Development Fund activities, with relatively less emphasis on bursaries and study loans and significantly more emphasis on training and employment schemes. Specifically, bursaries are increased to 40 per year; study loans are eliminated altogether; vocational training schemes are increased to produce 1000 new trainees per year; and employment schemes are increased to 26 per year.

Funding Scenarios

The Development Fund currently receives revenue from three sources: transfers from the MSD Fund, budgetary allocations from the Ministry of Labor, and income earned on the Development Fund's balance. As discussed in previous sections, the Development Fund may encounter difficulty in securing significant resources from outside sources on a long-term basis. For this reason, four different funding scenarios were developed based on different assumptions regarding the three sources which currently fund the DF's activities.

Funding Scenario 1: This scenario reflects the DF's current funding pattern, and assumes a N$3 million contribution from the Ministry of Labor in 2013/14 followed by a N$10 million contribution in each of the following four years. (This funding level has been confirmed for the years 2013/14 and 2014/15.) Funds transfers from the MSD fund's free reserves are kept constant at N$25 million, as indicated in the Strategic Business Plan; and investment income is calculated at 6 percent of the Development Fund's opening balance – an interest rate which reflects the Fund's 2012 level of returns.

Funding Scenario 2: This scenario (as well as Scenarios C and D) recognizes that the level of MSD free reserves[4] is increasing at a rate of approximately 12 percent per year, calculated based on actuarial valuations for 2007 through 2012. Scenarios B, C and D all assume a transfer of a fixed percentage of each year's free reserves, rather than of a fixed amount per year. Scenario B assumes a transfer of 2 percent of the MSD Fund's free reserves for each year, plus an investment return of 6 percent on the Development Fund's balance. No contributions from the Ministry of Labor are contemplated.

Funding Scenario 3: This scenario is based on a contribution from the Ministry of Labor of N$3 million in 2013/1454, followed by N$10 million in each of the following four years; a transfer of 2 percent of the MSD Fund's free reserves each year, and an investment return of 6 percent on the Development Fund balance.

Funding Scenario 4: This scenario is identical to Funding Scenario C except that the percentage of MSD's free reserves to be transferred each year is increased to 3 percent.

[4] A projection of the MSD fund's free reserves is included in the interactive financial model which accompanies this report.

8.2 Financial Projections

The following table presents the projected Development Fund balances at the end of 2017/2018:

Development Fund Balance in 2018

Funding Scenario	Activity Scenario A	B	C	D
1	N$ 96,096,455	N$ 74,472,153	N$ 53,362,737	N$ 29,708,874
2	N$ 149,861,485	N$ 128,237,182	N$ 107,127,766	N$ 83,473,903
3	N$ 197,395,075	N$ 175,770,773	N$ 154,661,357	N$ 131,007,494
4	N$ 318,508,047	N$ 296,883,745	N$ 275,774,329	N$ 252,120,466

Consistent with the findings of the 2012 Strategic Business Plan, were the Development Fund to implement the full set of activities contemplated in the Business Plan Balanced Scorecard (Activity Scenario A) without access to additional resources by the year 2018 (Funding Scenario 1), the Development Fund's balance would be drawn down to below the minimum level of N$100 million. Obviously, increased levels of activities as envisioned in Activity Scenarios B, C, and D without additional funding would draw down the fund's balance even more.

Activity Scenarios B and C contemplate gradually increasing levels of activity, while Activity Scenario D represents a major reallocation of resources consistent with a strategic realignment of the Development Fund's activity portfolio to specialize in training and employment schemes while reducing or at least holding constant the number of bursaries and reducing or eliminating study loans. Such a realignment might be called for as part of a strategy to provide services which are more complimentary to those offered by the NSFAF and NTA.

The possibility of basing the annual transfer from the MSD fund's free reserves on a fixed percentage of a growing base offers perhaps the resource mobilization strategy with the highest probability of success as well as impact. By moving from a fixed allocation of N$25 million per year (roughly equal to 2 percent of the MSD Funds free reserves in 2011) to an allocation of a fixed 2 percent of the MSD fund's free reserves, together with a continuation of the annual budget allocation form the Ministry of Labor (Funding Scenarios 2 and 3), the Development Fund would be able to undertake any of the four activity scenarios, or various combinations thereof, without risk of depleting either its own fund balance or that of the MSD Fund.

The option of increasing the percentage draw on the MSD fund's free reserves from 2 percent to 3 percent (Funding Scenario 4) is really not necessary given the feasible range of activities being considered by the Development Fund.

In terms of cash flow, most scenarios predict a cash shortfall during 2013/2014 due to the scale of activities planned for this year. Since in most cases activities are scaled back in 2014/15 and then gradually increased, only those scenarios which forecast ending fund balances below N$100 million also show operating deficits in the intervening years.

9. Findings and Recommendations

9.1 Summary of Findings

The overall findings of this assessment are:

- With its current staffing and funding the SSC Development Fund is neither organizationally nor financially sustainable at the activity levels planned for 2013/14 through 2017/18.
- It is doubtful that the SSC Development Fund will be able to access significant external funding on a long-term or sustainable basis in order to cover its projected deficit given the presence and level of funding enjoyed by the Namibia Student Financial Assistance Fund (NSFAF) and the National Training Authority/National Training Fund (NTA/NTF), as well as the declining level of international development assistance available to Namibia.
- The Development Fund can, however, achieve long-term financial sustainability if the SSC were to establish a policy of transferring a fixed percentage of the MSD Fund's free reserves, rather than a fixed dollar amount. As the MSD Fund's free reserves are projected to continue to grow at a compound annual rate of approximately 12 percent, an annual transfer of 2 percent of the Development Fund's free reserves will not appreciably affect the MSD Fund's growth or ability to provide benefits to those insured.
- It may be difficult to continue to justify the use of SSC funds for Development Fund activities unless the Development Fund can convincingly differentiate its services from those of the NSFAF and NTA/NTF.
- The Development Fund can make significant contributions to Namibia's development by effectively focusing its activities on the poorest, most vulnerable, and most underserved segments of the population, which may not be reached by the NSFAF and NTA/NTF.
- In the case of the Development Fund's vocational education programs, the investment of SSC funds in training schemes provides a positive return to the SSC, as measured by increased contributions to the MSD Fund, which is superior to that currently being earned on the Development Fund's investment portfolio.
- The increased staffing levels which are already contemplated in the Development Fund's operating budget together with a reassignment of responsibilities and an improvement in selected business processes should provide the Development Fund with the organizational structure and staffing level necessary to implement the projected increased level of activities.

9.2 Recommendations

Activity Focus

The Development Fund's current activities are largely duplicated by the activities of the NSFAF and NTA/FTF, which have considerably more resources available than does the DF. The nationwide scopes of both the NSFAF and the NTA/NTF include all segments of the population, including the poor, the unemployed, the underserved, and the most vulnerable. However neither the NSFAF nor the NTA/NTF is designed to proactively seek out beneficiaries from these underserved and vulnerable segments. For this reason, the Development Fund should further develop its ability to focus its study, training and employment schemes directly and exclusively on the poorest, must vulnerable and most difficult to reach segments of the population in order to provide services which those segments are not likely to receive from the two larger agencies. Specifically,

- The bursary scheme should focus on only those segments of the general population which are unlikely to apply or qualify for NSFAF financing due to their geographical isolation, chosen field of study, need for remedial education prior to beginning tertiary studies, status as adult learners, or other factors common to the target population of other SSC Development Fund programs. With this highly segmented approach, it is further recommended that study loans be phased out given the extreme poverty level of the target population and the availability of study loans under more attractive conditions through the NSFAF.

- The vocational education program should further refine its target market and unique approach to providing vocational training to the poorest and most vulnerable segments of the general population, including those with no or very little formal education, in order to avoid overlap with NTA-sponsored activities. The Development Fund may also wish to explore the possibility of assuming a leadership role in serving these target segments by setting standards and assuming the coordinating and administrative functions of training providers serving the Fund's target segments when these providers are unable to assume these functions themselves.

- Since the NTA will not sponsor programs similar to the Development Fund's employment creation schemes, the Development Fund may also wish to find ways to further integrate its training and employment schemes so as to better reach unemployed persons in its target population segments and, through a combination of training and community-based employment schemes, help these people to transition into the formal labor market following the acquisition of critical job skills.

Funding Strategy

The Development Fund should recognize the limited possibility of securing significant on-going budgetary support for its programs from external sources and concentrate on institutionalizing a policy of transferring two percent of the MSD Fund's free reserves on an annual basis to fund Development Fund programs and activities. This transfer should be accompanied by a continuation of support from the Ministry of Labor at the currently planned levels. Finally, the Development Fund should obtain Board approval for a change in its investment asset allocation strategy to that currently applicable for the SSC's MSD and ECF Funds.

Organizational Development Strategy

The Development Fund's approved operating budget already includes a significant increase in its staffing level, although the actual spending on salaries and wages for 2012/13 was less than one half of the amount budgeted for this purpose. The Development Fund should take immediate steps to appoint additional staff to adequately meet the needs of the increasing level of Development Fund-sponsored activities. It is also recommended that the financial management function of each of the four Development Fund activities be separated from the technical management of those activities, and that a Senior Officer – Finance be appointed to manage the finance function. It is also recommended that several business processes, including the selection of bursary and study loan recipients, and the management of bursary and study loan disbursements, be examined and where possible, redesigned to reduce the level of effort required to process applications and distribute awards. Finally, in order to help the SSC recover part of its investment in bursaries, loans, training and employment schemes, it will be important that the Fund develop business processes to track each "graduate" of its various programmes as they enter the workforce (with our without placement assistance from training providers and/or the DF) in order to ensure that proper payroll deductions are being made.

Activity Funding balance

Long term sustainability is possible whenever the fund's activity level and its funding level are in balance. Such a balance can be achieved at a relatively low level of activities, as contemplated in the 2012 Strategic Business Plan, or at more aggressive levels as suggested by activity scenarios C and D in the interactive financial model. Financial sustainability can be achieved at any of the proposed levels depending on the level of transfer of Free Reserves from the SSC's MSD Fund, although according to the interactive model, only a 2 percent transfer of free reserves, together with ongoing support from the Ministry of Labor is required to fund even the most aggressive Activity Scenario.

The decision regarding the level of activities should, therefore, be based not only on the availability of funding, but more importantly, on the strategic role of Development Fund activities in the broader national context and taking into account the scope and reach of the NSFAF and NTA/NTF activities.

It is recommended that Development Fund activities be focused on the most vulnerable segments of the population, where competition from the NSFAF and NTA/NTF is least likely. In these segments, Development Fund activities will provide unique opportunities to population segments which may not be reached by other programs, including those of the NSFAF and NTA/NTF. The level of activities in these segments must of necessity start small as the Fund's staff acquires experience in working with these populations. As experience is developed, the program level will then grow to limits imposed by the availability of funding. Said differently, the level of Development Fund activities should not initially be thought of as a function of funding availability but rather as a function of organizational capacity to reach target population segments and serve them effectively with its various study, training and employment programs.

The SSC Development Fund has the potential to play a unique and important role in its country's development by reaching underserved segments of the population with scholarship, training and employment creation services. It is fortunate to have the resource base on which to build a sustainable organization to fulfill this potential. The SSC can help it to achieve its potential by committing itself to the long-term financial support of the Development Fund through continuing transfers from the MSD Funds free reserves and supporting the required staff increases and organizational restructuring.

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Personal interviews

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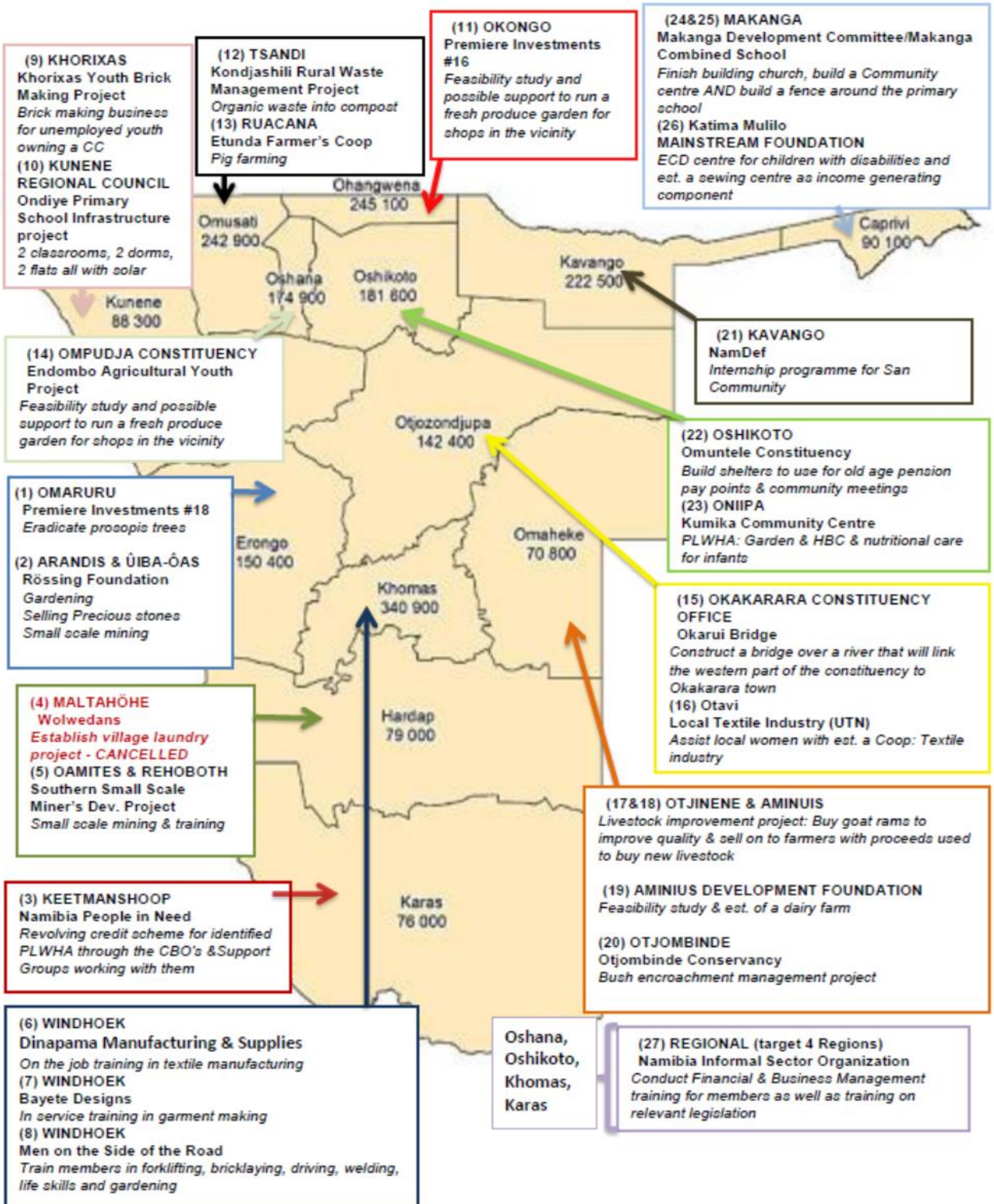
Appendix 1: 27 Development Fund Approved Employment Schemes, July 2013.



Map Source: Namibia 2011 Population and Housing Census (Prelim. results)

Appendix 2: Input Values for Funding Scenarios

Input Values by Scenario

			Scenario: A	Scenario: B	Scenario: C	Scenario: D
Inflation			6%	6%	6%	6%
Bursary Inputs						
Number of Bursaries:						
Type A	$	334,998.87	7	8	10	8
Type B	$	193,555.27	7	8	10	8
Type C	$	290,332.91	7	8	10	8
Type D	$	454,230.90	7	8	10	8
Type E	$	128,682.00	7	8	10	8
Inflationary Increase			6%	6%	6%	6%
Completion Percentage			85%	85%	85%	85%
Study Loan Inputs						
Average size of study loans			37500	37500	37500	37500
Number of study loans by year:						
2013/2014			35	36	40	0
2014/2015			35	37	40	0
2015/2016			35	38	40	0
2016/2017			35	39	40	0
2017/2018			35	40	40	0
Inflation Adjustment			6%	6%	6%	6%
Training Scheme Inputs						
Targeted Emplyment Increase						
2013/2014			1500	1500	1500	1500
2014/2015			550	600	750	1000
2015/2016			550	600	750	1000
2016/2017			550	600	750	1000
2017/2018			550	600	750	1000
Inflation Adjustment			6%	6%	6%	6%
Cost per trainee			9000	9000	9000	9000
Employment Scheme Inputs						
N$ Amount of Future Schemes						
2013/2014			26	26	26	26
2014/2015			13	15	15	26
2015/2016			13	15	15	26
2016/2017			13	15	15	26
2017/2018			13	15	15	26
Inflation Adjustment			6%	6%	6%	6%
Cost per employment scheme			$ 1,100,000	$ 1,100,000	$ 1,100,000	$ 1,100,000
Funding Scenarios			1	2	3	4
Ministry Contribution						
2013/2014			$ 3,000,000.00	$ -	$ 3,000,000.00	$ 3,000,000.00
2014/2015			$ 10,000,000.00	$ -	$ 10,000,000.00	$ 10,000,000.00
2015/2016			$ 10,000,000.00	$ -	$ 10,000,000.00	$ 10,000,000.00
2016/2017			$ 10,000,000.00	$ -	$ 10,000,000.00	$ 10,000,000.00
2017/2018			$ 10,000,000.00	$ -	$ 10,000,000.00	$ 10,000,000.00
MSD Contribution						
2013/2014			$ 25,000,000.00	2%	2%	3%
2014/2015			$ 25,000,000.00	2%	2%	3%
2015/2016			$ 25,000,000.00	2%	2%	3%
2016/2017			$ 25,000,000.00	2%	2%	3%
2017/2018			$ 25,000,000.00	2%	2%	3%
Interest on DF Reserves (%)			6%	6%	6%	6%